Before the
Federal Communications Commission
Washington, D.C.

In the Matter of	)	
	)	
Federal-State Joint Board	)	CC Docket No. 96-45
on Universal Service	)	

Comments
Of
The Plains Rural Independent Companies

I. Introduction

The Plains Rural Independent Companies (the "Plains Companies")[1] hereby submit comments in the above captioned proceeding. With this Public Notice ("Notice")[2] the Federal-State Joint Board on Universal Service ("Joint Board") seeks comment on issues referred to it by the Federal Communications Commission (the "Commission"). The issues that the Commission referred to the Joint Board relate to the high-cost universal service support mechanisms for rural carriers and the appropriate rural mechanism to succeed the five-year plan adopted in the Rural Task Force Order.[3]

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[1] Companies submitting these collective comments include: Arcadia Telephone Cooperative, Arlington Telephone Company, Ayrshire Farmers Mutual Telephone Company, The Blair Telephone Company, Cambridge Telephone Company, Citizens Mutual Telephone Cooperative, Clarks Telecommunications Co., Consolidated Telco, Inc., Consolidated Telecom, Inc., Consolidated Telephone Company, Dumont Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hartington Telecommunications Co., Inc., Hershey Cooperative Telephone Company, Inc., Interstate Communications, Interstate Telecommunications Cooperative, Inc., K&M Telephone Company, Inc., Kennebec Telephone Company, McCook Telephone Company, Nebraska Central Telephone Company, Northeast Nebraska Telephone Co., Northwest Telephone Cooperative Association, Ogden Telephone Company, Palmer Mutual Telephone Company, Rock County Telephone Company, Schaller Telephone Company, South Slope Cooperative Telephone Company, Stanton Telephone Co., Inc. Three River Telco, Universal Communications of Allison, Valley Telecommunications Cooperative, Inc., Van Horne Cooperative Telephone Company, and WTC Communications.

[2] *See* Public Notice, *Federal State Joint Board on Universal Service Seeks Comment on Certain of the Commission's Rules Relating to High-Cost Universal Service Support*, CC Docket No. 96-45, FCC 04J-2 (rel. Aug. 16, 2004).

[3] *See Notice* at para. 1.

The primary issue on which the Plains Companies will focus is whether a universal service support mechanism for rural carriers based on embedded costs or forward-looking economic cost ("FLEC") estimates would most efficiently and effectively achieve the goals set forth in the Telecommunications Act of 1996 (the "Act"). FLEC models have changed little since the review of such models by the Rural Task Force ("RTF") five years ago, at which time the RTF judged the Commission's Synthesis model to be inappropriate for determining costs of providing universal service for rural companies. Therefore, the Plains Companies believe that the use of embedded costs continues to be the best option to ensure that the universal service goals in the Act are met in rural areas. Furthermore, the Commission currently has an open proceeding examining changes in intercarrier compensation.[4] An intercarrier compensation proposal recently submitted to the FCC by the Intercarrier Compensation Forum ("ICF") recommends that a large proportion of revenues that rural carriers receive from access charges and other intercarrier compensation mechanisms should instead be recovered through universal service support.[5] Given the inextricable link between universal service and intercarrier compensation, the Plains Companies believe it is premature to consider changes to the universal service support mechanism for rural carriers at this time.

II. FLEC Proxy Models Should Not Be Used To Estimate Costs For Universal Service As Such Models Do Not Produce Reasonable Cost Estimates And Cannot Be Modified So That They Would Produce Reasonable Estimates.

The Commission acknowledged in the *RTF Order* in 2001 that it did not have sufficient information to develop a forward-looking model that would be appropriate to estimate costs in

[4] *See Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Notice of Proposed Rulemaking, FCC 01-132 (*"ICC NPRM"*) (rel. Apr. 27, 2001).

[5] *See* Letter from Richard R. Cameron, Counsel for the Intercarrier Compensation Forum, to Marlene H. Dortch, FCC, Re: Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92 (dated Oct. 5, 2004) Intercarrier Compensation and Universal Service Reform Plan at pp. 31, 52-58, 69, and 73-74.

areas served by rural carriers.[6] Based on this finding, the Commission retained a modified embedded cost mechanism. The Commission seeks comment on if it is now possible to design a FLEC model that would be appropriate to estimate costs for some or all rural carriers, or whether embedded costs remain a more appropriate basis for determining costs for some or all rural carriers.[7] The Commission also asks for comment regarding the major concerns about the Synthesis Model with respect to its application to rural carriers, and whether such concerns could be addressed through modification or redesign of the Synthesis Model.[8] Another related issue on which the Commission seeks comment is whether there are FLEC models now available that may be superior to the Synthesis Model for estimating rural carriers' costs.[9] The Plains Companies believe that the use of embedded costs remains the only appropriate method to measure costs for rural carriers for the purpose of determining universal service support.

As the RTF demonstrated in its examination of the FCC's Synthesis Model, the model produces cost estimates that vary widely from embedded costs.[10] In addition to a great range of variation, the variation resulted in individual company costs estimated using the synthesis model to be far in excess or far below the embedded costs of the company. Therefore, the use of the

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[6] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157 (*"RTF Order"*) (rel. May 23, 2001) at para. 177.

[7] *See Notice* at para. 20.

[8] Id. at para. 28.

[9] Ibid.

[10] *See A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies*, Rural Task Force White Paper 4, September, 2000 available at: http://www.wutc.wa.gov/rtf/rtfpub.nsf/43e458610b70dda8882567d00074c6cd/7e7e6b591c8b6bf38825696800730b2b!OpenDocument at p. 10.

inaccurate data from the Synthesis Model would have greatly advantaged or disadvantaged individual rural carriers relative to the use of more accurate embedded cost data.

The Plains Companies believe that the Synthesis Model produces cost estimates that vary widely from embedded costs due to the hypothetical nature of the model. The Synthesis Model, as well as other FLEC proxy models, bases costs on a hypothetical network that is designed based on a set of assumptions, not actual data. For example, customer locations are not always known, and assumptions are made to develop hypothetical customer locations when actual customer location data is unavailable. The hypothetical nature of the FLEC proxy models makes it difficult if not impossible to construct the models such that they could accurately estimate costs, especially for rural areas.

In addition to the hypothetical nature of FLEC proxy models, there are cases in which information used in such models that is to represent actual information is incorrect. For example, the Nebraska Public Service Commission ("NPSC") wished to use data from the Benchmark Cost Proxy Model ("BCPM") to administer the Nebraska Universal Service Fund ("NUSF"). Upon examination, a group of rural companies in Nebraska discovered that the exchange boundaries that are contained in the BCPM, which were obtained from a commercial vendor of exchange boundary maps, do not match the exchange boundary maps on file with the NPSC, which are the official maps for the purpose of determining exchange boundaries.[11] The group of rural companies urged the NPSC to correct the exchange boundaries prior to using the

[11] *See The Nebraska Public Service Commission, on its Own Motion, Seeking to Establish a Long-Term Universal Service Funding Mechanism*, Application No. NUSF-26, Progression Order No. 4, Direct Testimony of Sue Vanicek on Behalf of the Nebraska Rural Independent Companies (filed June 6, 2003) at 8:32-45 and Post-Hearing Brief of the Rural Independent Companies (filed Aug. 15, 2003) at p. 19.

BCPM data, and the NPSC did so.[12] The correction of the exchange boundaries did not occur without considerable time and expense. In order for FLEC proxy models to accurately reflect costs, such an effort would need to be undertaken for all fifty states. Furthermore, such an effort would correct only one of many error sources that are contained in FLEC proxy models.

While the above discussion focused on the Synthesis Model, the Plains Companies do not believe that other FLEC proxy models would produce reasonable estimates of rural carriers' costs. All FLEC proxy models suffer from the deficiencies of their hypothetical nature – they attempt to model a real network, but often fail to do so. Furthermore, the Plains Companies are only aware of two other FLEC proxy models, the HAI Model and the BCPM. The Commission considered these models in its proceeding to choose a model to estimate non-rural carriers' costs, and found the Synthesis Model to be superior to both of these models.[13] In addition, the Plains Companies are not aware of major changes that have been made to any of the FLEC proxy models since the Commission examined such models in its proceeding regarding universal service support for non-rural carriers. Therefore, the Plains Companies believe that the continued use of embedded costs is the only appropriate means to estimate costs for rural carriers.

III. The Basis For Calculating And Disaggregating Support Should Remain Unchanged.

The Commission seeks comment on whether it should use a cost model to target support to the highest cost wire centers, even if it continues to base rural company support on embedded

[12] *See The Nebraska Public Service Commission, on its Own Motion, Seeking to Establish a Long-Term Universal Service Funding Mechanism*, Application No. NUSF-26, Order Seeking Comments on Data Set (entered Mar. 18, 2004) at p. 1.

[13] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45 and *Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Docket No. 97-160, Fifth Report and Order, FCC 98-279 (rel. Oct. 28, 1998) at para. 3.

costs.[14] The Commission also asks if targeting support to wire centers would be more or less effective than rural carrier's current disaggregation plans, which permit targeting support below the wire center level.[15] The Plains Companies believe that the Commission's current rules allowing rural carriers to disaggregate their universal service support best targets support to high-cost areas.[16]

The Plains Companies support the targeting of support to areas below the wire center level, as this allows rural carriers to target support to areas that are the costliest to serve. Oftentimes, the variation of cost within a wire center is greater than the variation of costs between wire centers. Many communities have sufficient density such that they require little or no universal service support. However, almost all rural areas outside communities are likely to require some universal service support. Therefore, allowing rural carriers to develop their own disaggregation plans to target support to areas outside of communities best matches the amount of support with the cost to serve the area, which was the intended purpose of disaggregation plans.[17] On the other hand, targeting support to the wire center using a cost model would open opportunities for arbitrage that the disaggregation of support was designed to eliminate. Competing carriers could choose to serve predominantly low-cost areas within a high-cost wire center and receive support in excess of the appropriate amount for the area that the competing carrier chose to serve. Therefore, the Plains Companies recommend that the Commission continue the current practice of allowing rural carriers to file disaggregation plans to target

[14] *See Notice* at para. 45.

[15] Ibid.

[16] *See* 47 C.F.R. Section 54.315.

[17] *See RTF Order* at para. 137.

support to the highest-cost areas, and not use cost models to target support at the wire center level.

The Commission seeks comment on whether there is a continued need to provide support for carriers with high switching costs, or whether other high-cost mechanisms provide sufficient support for such carriers.[18] The Plains Companies believe that there is a continued need to provide support for rural carriers with high switching costs. Support for high switching costs is important because some rural carriers that may not have greater than average loop costs may have greater than average switching costs. Universal service is provided through an entire network, not individual components of a network, consequently, support should be provided for all components of the network.

The Commission seeks comment on whether rural carriers that experience high transport costs should receive support.[19] Many rural companies experience high transport costs, as the areas they serve cover great distances and they have fewer customers over which to spread the transport costs. The Plains Companies believe that all components of the network should be supported, and believe that there may be some merit to considering a single embedded cost mechanism that includes support for high-cost loops, switching, and transport. However, while the Plains Companies believe that this concept should be investigated, they do not believe that transport costs that are legitimately recovered through intercarrier compensation rates should be reassigned to be recovered through universal service support in order to meet arbitrary, non cost-based intercarrier compensation rate targets.

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[18] *See Notice* at para. 46.

[19] Id. at para. 47.

IV. It Is Premature For The Commission To Consider Changes To The Rural Universal Service Support Mechanism Given Pending Intercarrier Compensation Reform.

The Plains Companies understand the Joint Board's responsibility to seek comment on universal service issues referred to it by the Commission as it is doing in the present instance. However, while the Joint Board has a duty to seek comment and make recommendations to the Commission on matters referred to it, the Plains Companies also urge the Joint Board to caution the Commission against making changes to the rural universal service support mechanism until the Commission has decided what, if any, actions it will take to reform intercarrier compensation.

The ICF has filed a proposal to reform intercarrier compensation. The Commission is expected to ask for comment on this proposal, as well as other proposals that may be filed, in a Notice of Proposed Rulemaking late in 2004. The ICF proposal calls for moving costs currently recovered through access charges and reciprocal compensation to a universal service support mechanism.[20] Proposals such as the *ICF Plan* would result in major shifts in cost recovery and make many rural companies even more dependent upon universal service support than they are today. Therefore, the Plains Companies believe that the Commission should not act on recommendations to change the rural universal service support mechanism until such time as it can determine how such changes would interact with changes in intercarrier compensation that the Commission may consider.

V. Conclusion

The Plains Companies recommend that embedded costs should continue to be used as the basis for determining costs for rural universal service support. The Plains Companies believe

[20] *See* footnote 5.

that the use of study area costs is more appropriate than statewide average costs to determine areas to which high-cost support should be targeted. The current Commission rules allowing rural carriers to disaggregate support appropriately targets support to high-cost areas, and should not be replaced with a system that targets support to wire centers based on costs derived from a cost model. Finally, the Plains Companies recommend that changes to the rural universal service support system should not be made until such time as proposed changes can be considered with any changes that may be made to intercarrier compensation.

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Respectfully submitted,

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Arlington Telephone Company,
Ayrshire Farmers Mutual Telephone Company,
The Blair Telephone Company,
Cambridge Telephone Company,
Citizens Mutual Telephone Cooperative,
Clarks Telecommunications Co.,
Consolidated Telco, Inc.,
Consolidated Telecom, Inc.,
Consolidated Telephone Company,
Dumont Telephone Company,
Eastern Nebraska Telephone Company,
Great Plains Communications, Inc.,
Hartington Telecommunications Co., Inc.,
Hershey Cooperative Telephone Company, Inc.,
Interstate Communications,
Interstate Telecommunications Cooperative, Inc.,
K&M Telephone Company, Inc.,
Kennebec Telephone Company,
McCook Telephone Company,
Nebraska Central Telephone Company,
Northeast Nebraska Telephone Co.,
Northwest Telephone Cooperative Association,
Ogden Telephone Company,
Palmer Mutual Telephone Company,
Rock County Telephone Company,
Schaller Telephone Company,
South Slope Cooperative Telephone Company,
Stanton Telephone Co., Inc.,
Three River Telco,
Universal Communications of Allison,
Valley Telecommunications Cooperative, Inc.,
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